

IN THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:

UNITED CITIES GAS COMPANY, a
Division of ATMOS ENERGY
CORPORATION, PETITION TO
AMEND THE PERFORMANCE
BASED RATEMAKING MECHANISM
RIDER

DOCKET NO. 02-00850

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TN REGULATORY AUTHORITY
DOCKET ROOM

**PETITION BY UNITED CITIES GAS COMPANY
TO AMEND THE PERFORMANCE BASED RATEMAKING
MECHANISM RIDER TO ITS TARRIF**

United Cities Gas Company, a Division of Atmos Energy Corporation ("United Cities"), files this petition seeking approval of the Tennessee Regulatory Authority ("Authority") to amend the Performance Based Ratemaking Mechanism Rider (PBRM") in its tariff to specifically incorporate a transportation index factor incentive mechanism. United Cities specifically files this petition without waiving its objections, defenses and positions taken in regard to Docket No. 01-00704. The proposed amendment to the tariff is attached hereto as Exhibit A. United Cities would show that this amendment is consistent with the intent and scope of the PBRM and is beneficial to the customers.

Respectfully submitted,

BAKER, DONELSON, BEARMAN
& CALDWELL, P.C.

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CERTIFICATE OF SERVICE

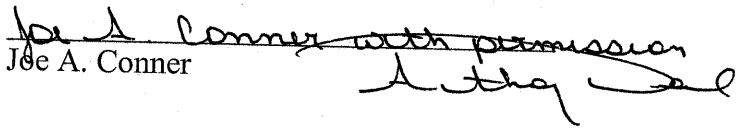
I hereby certify that a true and correct copy of the foregoing has been served via e-mail and U.S. Mail, postage prepaid, to the following this 9th day of August, 2002:

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PERFORMANCE BASED RATEMAKING MECHANISM RIDER

Applicability

The Performance-Based Ratemaking Mechanism (the PBRM) replaces the reasonableness or prudence review of the Company's gas purchasing activities overseen by the Tennessee Regulatory Authority (the Authority) in accordance with Rule 1220-4-7-.05, Audit of Prudence of Gas Purchases. This PBRM is designed to encourage the utility to maximize its gas purchasing activities at minimum costs consistent with efficient operations and service reliability and will provide for a shared savings or costs between the utility's customers and shareholders. Each plan year will begin April 1. The annual provisions and filings herein will apply to this annual period. The PBRM will continue until it is either (a) terminated at the end of a plan year by not less than 90 days notice by the Company to the Authority or (b) modified, amended or terminated by the Authority.

Overview of Structure

The Performance-Based Ratemaking Mechanism consists of three components:

Gas Procurement Incentive Mechanism (GP)

Capacity Management Incentive Mechanism (CM)

Transportation Index Factor Incentive Mechanism (TIF)

The PBRM is computed in accordance with the following formula:

$$\text{PBRM} = \text{GP} + \text{CM} + \text{TIF}$$

The Gas Procurement Incentive Mechanism (GP) establishes a predefined benchmark index to which the Company's commodity cost of gas is compared. It also addresses the use of financial instruments or private contracts in managing gas costs. The net incentive savings or costs will be shared between the Company's customers and the Company on a 50% / 50% basis.

The Capacity Management Incentive Mechanism (CM) is designed to encourage the Company to actively market off-peak unutilized transportation and storage capacity on upstream pipelines in the secondary market. The net incentive benefits will be shared between the Company's customers and the Company on a 90% / 10% basis.

The Transportation Index Factor Incentive Mechanism (TIF) is designed to encourage the Company to actively negotiate transportation discounts on the Company's pipeline suppliers. The TIF establishes a predefined standard of performance to which the Company's actual discounted transportation costs from the discounted contracts are compared. Effective April 1, 2001, the net incentive savings shall be shared between the Company's customers and the Company based on the amount of the resulting savings as a percent of the actual discounted, renewed and/or renegotiated discounted transportation costs per pipeline contract. For savings amounting up to 10% of the standard of performance, the savings from these discounted, renewed, and/or renegotiated contracts shall be shared between the Company's customers and the Company on a 70%/30% basis. For savings of 10%, but less than 20% of the standard of performance, the savings shall be shared between the Company's customers and the Company on a 60%/40% basis. For savings amounting to 20% or more than the standard of performance, the savings shall be shared between the Company's customers and the Company on a 50%/50% basis.

The Company is subject to a cap on total incentive savings or costs from all three mechanisms of \$1.25 million annually.

Gas Procurement Incentive Mechanism (GP)

Commodity Costs:

On a monthly basis, the Company will compare its commodity cost of gas to the appropriate benchmark amount. The benchmark amount will be computed by multiplying actual purchase quantities for the month, including quantities purchased for injection into storage, by the appropriate price index. For monthly spot purchases, the price index will be a simple average of the appropriate *Inside FERC Gas Market Report*, *Natural Gas Intelligence*, and NYMEX for that particular month. For swing purchases, the published Gas Daily rate for the first business day of gas flow will be used as the index. For long-term purchases, i.e., a term more than one month, these indexes will be adjusted for the Company's rolling three-year average premium paid to ensure long-term supply availability during peak periods. For City Gate purchases, these indexes will be adjusted for the avoided transportation costs that would have otherwise been paid if the upstream capacity were purchased versus the demand charges actually paid to the supplier. City Gate is where the gas is transferred from the upstream pipeline(s) to the Company's local distribution system and shall include the total bundled gas cost to the consumer of commodity, transportation, and storage costs.

Price Indexes:

The price index for monthly spot purchases serves as an indicator of the market price for gas for a particular length of contract and is obtained from the following sources:

Inside FERC Gas Market Report provides first day of the month published index price of prices paid for 30-day or less spot gas delivered to specific pipeline receipt points

Natural Gas Intelligence provides bid week average published index price for specific purchase locations

NYMEX provides monthly closing price for transactions at the Henry Hub

The location of each commodity purchase shall be matched with the proper index's geographic location to ensure proper comparisons of performance.

Nora Contract:

Gas deliveries under the Company's existing Nora contract dated November 1, 2000 and any future contract renewals, or a negotiated contract with a different vendor, shall be included under the PBRM as City Gate purchases as outlined above, beginning with the plan year April 1, 2001.

Deadband:

If the total commodity cost of gas in a month falls within a deadband of 97.7% to 102% of the total of the benchmark amounts, there will be no incentive savings or costs. If the total commodity cost of gas falls outside of the deadband, the amount falling outside of the deadband shall be deemed incentive savings or costs under the mechanism. Such savings or costs will be shared 50%/50% between the Company's customers and the Company. The dead

band shall be in effect for a three-year term, beginning with the plan year April 1, 2001. At the start of each three-year term, beginning with the plan year April 1, 2004, the deadband will be readjusted to 1% below the most recent annual audited results of the incentive plan, and in effect for the next three-years.

Financial Instruments or Other Private Contracts:

To the extent the Company uses futures contracts, financial derivative products, storage swap arrangements or other private agreements to hedge, manage or reduce gas costs, any savings or costs will flow through the commodity cost component of the Gas Procurement Incentive Mechanism.

Capacity Management Incentive Mechanism (CM)

To the extent the Company is able to release daily transportation or daily storage capacity, the Company's customers and the Company on a 90/10 basis will share the associated savings.

The sharing percentages shall be determined based on the actual demand costs incurred by the Company (exclusive of credits for capacity release) for transportation and storage capacity during the plan year, as such costs may be adjusted due to refunds or surcharges from pipeline and storage suppliers. Any incentive savings or costs resulting from adjustments to the sharing percentages caused by refunds or surcharges shall be recorded in the current Incentive Plan Account (IPA).

Transportation Index Factor Incentive Mechanism (TIF)

The Discounted Transportation Costs (DTC) shall be the discounted transportation costs that were paid by the Company under each of its discounted contracts with the transporting pipeline. The actual DTC under each discounted transportation contract shall include both pipeline discounted demand and volumetric costs associated with the natural gas pipeline transportation services as well as all applicable FERC approved Surcharges, and Direct Bills, but excluding actual capacity release credits and labor related or other expenses typical classified as operating and maintenance expenses.

To determine the savings that would be shared between the Company's customers and the Company, the Company shall compare on a monthly basis the DTC under each of the discounted transportation contracts against the Standard of Performance (SOP) for that discounted transportation contract.

Both the DTC and SOP would reflect only the transportation costs associated with the delivery cost of the commodity from the transporting pipeline's receipt point to the Company's City Gate, and shall not include any transportation costs upstream of the transporting pipeline's receipt point.

SOP

The SOP for DTC shall include both the pipeline demand and volumetric costs associated with natural gas pipeline transportation services. A SOP would be determined for each of the

Company's discounted contracts and shall be comprised of three components:

Tariffed Transportation Demand Rate
Tariffed Transportation Commodity Rate
Surcharges and Direct Bills

Surcharges and Direct Bills, and other applicable amounts (S&DB) approved by FERC would include surcharges, direct bills, cashouts, take-or-pay amounts, Gas Supply Realignment and other Order 636 transition costs.

The applicable, undiscounted, published FERC tariffed Transportation Demand Rate (TDR) is to be multiplied by the Demand Quantities (DQ) contracted for by the Company from the applicable pipeline transportation provider to determine the fixed cost portion of the transportation service, or:

$$\text{SOP (fixed portion)} = \text{TDR} \times \text{DQ}$$

The applicable, undiscounted, published FERC tariffed Transportation Commodity Rate (TCR) is to be multiplied by the Actual Volumes (AV) delivered at the Company's City Gate by the applicable transportation provider for the month to determine the variable cost portion of the transportation service, or:

$$\text{SOP (variable portion)} = \text{TCR} \times \text{AV}$$

The total SOP, both fixed and variable, for each applicable discounted pipeline contract shall be calculated, as follows:

$$\text{SOP}_i = (\text{TDR}_i \times \text{DQ}_i) + (\text{TCR}_i \times \text{AV}_i) + \text{S\&DB}_i,$$

where i = applicable discounted pipeline contract

Transportation Savings Formula

Effective April 1, 2001, for each discounted, renewed and/or renegotiated transportation contract, if the actual discounted transportation costs is less than the relevant SOP for the period, then the TIF Savings shall be computed as follows:

$$\text{TIF Savings}_i = (\text{SOP}_i - \text{DTC}_i),$$

where DTC_i = actual Discounted Transportation Costs per pipeline, i
 SOP_i = Standard of Performance per discounted pipeline contract, i

The resulting TIF savings for each discounted, renewed and/or renegotiated transportation contract shall be shared between the Company's customers and the Company based on the amount of the actual Discounted Transportation Cost per pipeline contract as compared to its SOP, as follows:

When $((\text{SOP}_i - \text{DTC}_i) / \text{SOP}_i)$ is $> 0\%$, but $< 10\%$,
the entire amount of TIF Savings $_i$ shall be shared between the
Company's customers and the Company on a 70%/30% basis

When $((\text{SOP}_i - \text{DTC}_i) / \text{SOP}_i) \geq 10\%$, but $< 20\%$,
the entire amount of TIF Savings $_i$ shall be shared between the
Company's customers and the Company on a 60%/40% basis

When $((\text{SOP}_i - \text{DTC}_i) / \text{SOP}_i) \geq 20\%$,
the entire amount of TIF Savings $_i$ shall be shared between the
Company's customers and the Company on a 50%/50% basis